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MEDIA ADVISORY

Ambassador Richard L. Morningstar
Special Envoy for Eurasian Energy
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As delivered:

It is a great pleasure to be in Baku again, and to talk about the Obama Administration's Eurasian Energy policy, and in particular, our support for the Southern Energy Corridor.

There are three main components of our Eurasian energy strategy. **First**, we encourage the development of new oil and gas resources. We also promote efficiency and conservation in the use of all energy resources and the development of clean energy technologies. Because there is a world market for oil, new production contributes to meeting growing demand anywhere in the world, including in the United States. When we are talking about new natural gas production in the Caspian region, it is unlikely that any of that gas will reach the U.S., but it is still important because it will add to international gas supply. Additional supply in one place naturally frees up supply in another. As the market for liquefied natural gas continues to grow, we can start to think about gas moving around markets in much the same way oil does.

Second, we want to assist Europe in its quest for energy security. We recognize we are 4000 miles away but want to help where we can. Taking goods and services together, the EU27 and the U.S. account for the largest bilateral trade and investment relationship in the world. Europe is our partner on any number of global issues from Afghanistan to Libya to the Middle East, from human rights to free trade. We have an interest in an economically strong Europe, as Europe has an interest in an economically strong U.S. Energy security is directly related to economic prosperity. Of course, Europe is composed of many different states and energy security is a more pressing issue to some than to others. Some countries in Europe do not have a diverse energy mix and depend largely or entirely on a single supplier and transport route. When that route is disrupted, as we witnessed in January 2009, the consequences can be severe. The populations of Bulgaria and Serbia and others who suffered in the cold can attest to that. So our aim is to encourage the development of a balanced and diverse energy strategy with multiple energy sources with multiple routes to market. This approach furthers competitive, efficient markets and the best prices for consumers.

Third, we want to help Caspian and Central Asian countries, including Azerbaijan, find new routes to market. We want to help foster economic growth and prosperity in these countries. By expanding export routes, they can increase competition for their resources, demand a fair price, and create strong links to the global economy. These countries should also be able to make their own independent choices regarding how they deal with energy resources.

Energy markets work best when free market forces drive decisions on how oil and gas are produced, transported, and purchased. This is normally the case for private firms and can even be the case for state-owned oil and gas companies. But governments can and should play a facilitating role. Governments should put in place the right business climate to attract investment and should work with neighboring states to expand the market and increase interconnectivities. We can encourage these efforts, and work with our partners to create the political framework in which businesses and commercial projects can thrive.

At the heart of our policy is the belief that energy security is best achieved through diversity – diversity of suppliers, diversity of transportation routes and diversity of consumers, together with a focus on alternative technologies, and renewable and other clean energy technologies, and increased energy efficiency. The recent events in North Africa, the Middle East, and Japan show that global markets can change in a heartbeat and all countries need balanced and diverse energy strategies.

The Southern Corridor

In line with this approach, the Obama Administration strongly supports the establishment of a new pathway, the so-called Southern Corridor, to bring natural gas to Europe, via Turkey, from the Caspian and potentially other sources beyond Europe's south-eastern frontiers. Gas from Azerbaijan's Shah Deniz offshore field will be the first significant volumes available to supply the Southern Corridor. Shah Deniz gas is absolutely essential to the development of the Southern Corridor. Plans for the development of the second phase of Shah Deniz are well underway. At the same time, negotiations between Azerbaijan and Turkey on gas sales and gas transit issues are almost complete, and we expect that formal agreements will be signed soon. Negotiations also are ongoing with other potential buyers of Shah Deniz gas.

In the meantime, three separate pipeline consortia -- the Nabucco, ITGI and TAP groups -- are laying the financial, technical and organizational groundwork to compete for the right to ship Shah Deniz gas. In the abstract, a large dedicated pipeline, like Nabucco, would be preferable politically and strategically. But it must be commercially viable. We understand that the Shah Deniz consortium expects to make a pipeline route decision by the end of the year, and in light of the momentum achieved over the past 18 months, we are both confident that a commercially viable Southern Corridor will be realized.

While gas from the Shah Deniz field will be the first gas available and is necessary to the development of the Southern Corridor, there is good reason to believe other sources can ultimately contribute additional volumes to the Southern Corridor. Azerbaijan has promising potential in other Caspian fields. Turkmenistan is investing in infrastructure to keep open a western gas export option. And there are increasing indications that, once it finds the means to satisfy pressing domestic demands for electricity, Iraq will have significant gas export capacity. We have an active dialogue with these countries, with key partners like Turkey, and with relevant members of the international business community, to explore and encourage development of the broadest possible basis for a robust Southern Corridor that will ultimately be a critical element in the global energy architecture.

Oil markets and oil production are also key to our strategy. We actively support further production of oil in Kazakhstan and new export routes for that oil to world markets, since Kazakhstan is one of the few non-OPEC countries with the potential to substantially increase production over the next 10 years.

Russia

Some people have portrayed our energy policy and Russia's as the next round in the Great Game in Central Asia. I reject this analogy. Energy security and energy investment are topics for serious two-way discussions with Russia. The importance of these issues is reflected by the inclusion of a Working Group on Energy, chaired by Energy Secretary Chu and Russian Energy Minister Shmatko, under our U.S.-Russia Bilateral Presidential Commission. The Energy Working Group also includes sub-groups on Energy Security, Energy Efficiency, and Clean Energy Technologies. Secretary Chu is in Moscow this week discussing these issues.

Russian Deputy Minister of Energy Kudryashov and I have chaired two meetings of the EWG's Energy Security Sub-Group, in which we have had productive discussion on issues such as world market energy trends, proposed projects to bring new oil and gas to market and bilateral investment in Russian and U.S. energy markets. Russia is an important supplier of oil and gas, and we welcome market-driven expansion of its production capacity.

Ukraine

The United States and Ukraine discuss energy issues on a regular basis through the U.S.-Ukraine Commission on Strategic Partnership as well as the U.S.-Ukraine Energy Security Working Group. We continue to encourage Ukraine to take the necessary measures to attract foreign investors to its energy sector, including transparency, good governance and effective legal and regulatory frameworks. Ukraine has recently taken steps to reinforce its energy security, including plans to increase domestic supply of both conventional and unconventional gas sources. The February 2011 signing of the U.S.-Ukraine Memorandum of Understanding on Unconventional Gas Resources marks a deepening of our bilateral cooperation in the energy sphere.

Central and Eastern Europe

We support Central and Eastern European states efforts to more effectively diversify energy sources. We are encouraging them to coordinate work toward a common energy market and to increase gas and electricity connections with each other and with the larger, better-supplied economies of Europe. To this end, the U.S. is actively cooperating with the Baltic States in implementing the Baltic Energy Market Interconnection Plan, which strives for full integration of the Baltic States into the European energy market. The U.S. also encourages increased regional efforts in the energy sphere by the Visegrad Four; Poland, Czech Republic, Slovakia, Hungary, and other countries in the region. The emphasis in Central Europe on a North-South corridor as an East-West corridor will also be extremely important.

Existing Infrastructures, EU Law and Unconventional Sources

It is important to emphasize that new pipelines alone will not full assure Europe's energy security. The U.S. supports the other initiatives that Europe is undertaking to increase its own energy security, including through a major set of decisions in energy that the European Council recently adopted, for which Commissioner Oettinger deserves great credit. Those initiatives focus on building a single market for energy, unbundling the distribution and supply functions of energy firms, building interconnectivity of European gas and electricity networks,

environmentally sound development of shale gas reserves, enhancing LNG import capabilities, increasing gas storage, improving energy efficiency, and exploring alternative and renewable sources. All of these are pieces of the puzzle to ensure European energy security. While some of that appears highly technical, these measures move toward a future where every country in Europe can access regional and global markets for energy resources.

The U.S.-EU Energy Council

The U.S.-EU Energy Council was launched in November 2009, formalizing our ongoing engagement with the EU and member states on energy issues in three areas: Global Energy Security and Markets, Energy Policy and Standards, and Technology and Research Cooperation. We have developed coordinated approaches to Ukraine, Russia, the Southern Corridor and Iraq.

Given current global financial and economic conditions, it is more important than ever for countries to have reliable and consistent access to affordable energy supplies. Greater energy interconnectivity, competitiveness, and transparency will increase energy security and propel economic development and prosperity.

In sum, the key to achieving our Eurasian energy strategy is engagement. We need to continue to engage with the private sector, with the EU and with individual states, including Azerbaijan. Our job is to listen, identify common interests and priorities and play a facilitating role where we can.

Thank you.

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